



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 6/26/2000

GAIN Report #DR0006

Dominican Republic

Tobacco and Products

Annual

2000

Approved by:

Kevin N. Smith

U.S. Embassy

Prepared by:

Carlos G. Suarez

Report Highlights:

After an excessive production in CY 1998 induced by cigar boom the previous year, production dropped in CY 1999 below the five year average. Actual consumption increase slightly although total leaf consumption duplicated just to discard damaged inventories.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Santo Domingo [DR1], DR

Table of Contents

Executive Summary.....	1
 Production.....	2
 Prices.....	3
Consumption.....	3
 Wholesale Cigarette Prices.....	5
Trade.....	6
Stocks.....	7
Policy.....	8
 Tariffs.....	8
Marketing.....	9
Statistical Tables.....	10

Executive Summary

Almost ninety two percent of the tobacco produced in the Dominican Republic is Dark Air and Sun Cured (DASC). In addition there are some small quantities of flue-cured and burley varieties produced for the domestic cigarette market. DASC production has experienced considerable growth in recent years as a result of the international demand for good quality cigars. With the cigar boom in CY 1997, production was insufficient to meet the increasing demand and prices for tobacco soared. As a result, dry weight production for CY 1998 established a record high surpassing 30,000 MT. Over 300 million cigars were exported then and a record high of 376 million units were produced in CY 1999 from the local manufacturers and the Free Trade Zone (FTZ). This includes over 100 million machine made cigars. The CY 1999 production dipped below the five year average to 19,000 with lower export prices. CY 2000 may expect to increase 5-7 percent to meet the increasing demand for cigars.

Blond tobacco for cigarettes, such as flue-cured and burley production is stable and services only the local market. International demand for hand-made cigars using high quality Dominican tobacco increased to a record high in 1999 and is expected to continue into 2000. The last harvest (CY 1999) is closer to normal and a third lower than the record high obtained in 1998. Although it is early to anticipate CY 2000 tobacco consumption, estimates may reflect a slightly demand next year.

The Dominican Republic continues to be one of the most important trading partners to the United States in tobacco. In 1999, tobacco exports from the Dominican Republic to the United States decreased due to the hurricane Georges in 1998. Dominican exports were US\$33 million, making the DR the 5th leading supplier. The DR imports tobacco from the U.S. to its Free Trade Zones, classifies, further processes and re-exports a value added product. U.S. exports to the Dominican Republic reached approximately US\$136 million, making the Dominican Republic the 4th largest importer of U.S. tobacco.

The United States supplies the vast majority of DR tobacco imports. Imports of dark tobacco from the United States increased over eighteen percent during CY 1999 as a result of an increase demand for cigars. In spite of this, there is a continued demand for processing high quality tobacco and wrapper. Most of the imports are used as wrapper for classification, processing and cigar manufacture in the Free Trade Zones (FTZ) and re-exported to the United States as well as to other countries. In CY 1999, the Dominican Republic imported over 4,850 MT of dark tobacco wrappers from the United States.

In CY 1999, the marketing channels for most of the DASC tobacco moved from the producer or producer associations to brokers and to independent packers, or to the exporters and the Cigar Factories in and outside Free Trade Zones. Exporters handled over half of the production. In the case of flue-cured and burley tobacco, the marketing channels are different. There are only two cigarette producers and generally they contract tobacco producers and finance the operation in order to guarantee the required product.

Homogenized sheets are neither manufactured nor used in the Dominican cigarette or cigar manufacture.

Production

According to preliminary information from the Dominican Tobacco Institute, INTABACO, over ninety two percent of the tobacco produced in the Dominican Republic in 1999 was the dark air and sun cured. Within this category there are three distinctive types produced: sixty eight percent is "Piloto Cubano" which is used for blending and as a source of flavor and aroma, 3.2 percent is "Amarillo Parado", used as filler and the rest is "Chago Diaz", also used as a source of flavor and aroma (28.3%). In addition there are small quantities of flue-cured and burley produced for cigarette manufacture.

Dark air and sun cured production has experienced considerable growth in recent years as a result of the international demand for good quality cigars. With the cigar boom in CY 1997, production was insufficient to meet the increasing demand and prices for tobacco soared. As a result, dry weight production for CY 1998 established a record surpassing 30,000 MT. Over 300 million cigars were exported then and a record high of 376 million units were produced in CY 1999 from the local manufacturers and the Free Trade Zone (FTZ). This includes over 100 million machine made cigars. The CY 1999 production dipped below the five year average to 19,000. CY 2000 may expect to increase 5-7 percent to meet the increasing demand for cigars.

Flue-cured and Burley tobacco are used exclusively for cigarette manufacture for local consumption. Prevailing tobacco prices have justified increased use of inputs (e.g., fertilizers, pesticides, fungicides, etc.) which has kept yields generally high. Yields have remained stable as noted in the following table:

Average Tobacco Yields by type (MT/HA)

Type	CY 1997	CY 1998	CY 1999
Virginia	2.71	2.69	2.71
Burley	1.98	1.99	1.96
"Amarillo Parado"	1.11	1.45	1.43
"Chago Diaz"	1.57	1.65	1.57
"Piloto Cubano"	1.59	1.64	1.57

Source: derived from INTABACO and industry.

For many years, the GODR applied import restrictions which forced cigarette producers to grow their own flue-cured and burley tobacco requirements. These trade barriers have been eliminated and, although tariffs remain relatively high, flue-cured/burley tobacco users now have the option of sourcing their needs locally or through imports at lower costs. The United States supplies over 85% of the total imports (mostly wrapper to Free Trade Zone), with Occasional quantities of burley, flue cured and oriental tobacco supplied by Brazil and Argentina. Both the area planted and the production of flue-cured/burley tobacco decreased in CY 1999 and are not expected to vary much in CY 2000.

Pest problems are generally limited to blue mold and aphids. These problems have not had a major adverse impact on overall output, except on "Amarillo Parado" which is the less valuable leaf.

Prices

Producers of flue-cured/burley tobacco and of the dark "Piloto Cubano" and "Chago Diaz" receive good prices for their products as a result of the steady demand for cigarettes and the continued increasing demand for good quality cigars. However, prices for the less quality dark tobacco type "Amarillo Parado" continues to be considerably lower than the other types. Average on-farm prices for the last three years are presented below:

Average On-Farm Price for Tobacco (RD\$)

Type	CY 1997	CY 1998	CY 1999
"Amarillo Parado" 1/	600.00	400.00	350.00
"Chago Diaz" 2/	3,000.00	2,243.00	2,300.00
"Piloto Cubano" 2/	2,502.25	2,481.00	2,500.00
Virginia 3/	2,359.00	2,348.00	2,400.00
Burley 3/	1,724.84	1,715.00	1,750.00
Exchange rate RD\$ per US\$	14.70	16.20	16.25

1/ 60 Kg. bags 2/ 55 Kg. bags 3/ 50 Kg. bags

Source: INTABACO and Industry.

Prices have traditionally been determined by exporters or processors who account for the majority of consumption. Prices during CY 2000 are not expected to increase. The growers of flue-cured/burley tobacco receive a contract price from the cigarette manufacturing companies, these prices have remained stable and practically unchanged for the last three years.

Consumption

Consumption estimates for DASC, derived from INTABACO data, excludes plug tobacco (Andullos) and on-farm consumption which are considered pre-harvest losses. Dark air and sun dried tobacco apparent consumption increased above prior estimates as a result of waste and disposal of old and badly kept quantities of black tobacco purchased by the government years ago. The last harvest (CY 1999) is closer to normal.

According to industry sources and after the cigar boom, the number of hand made cigar companies has decreased to less than one hundred by early 2000, down more than a third from almost 150 factories registered in 1997.

Cigarette consumption (and production) has fluctuated between 4.0 and 4.4 billion units over the last five years, averaging 4.2 billion. There have been no new taxes applied to tobacco products except in 1997, when the GODR increased the selective tax imposed on beer and tobacco products.

With an almost flat demand for cigarettes and no new taxes, retail prices have remained unaltered for three years. Overall cigarette consumption for CY 1999 decreased as a result of the close down of the state owned Compania Anonima Tabacalera (CAT) and the privatization process that has taken place within it. During the first quarter of 2000 prices have not change and overall consumption for the year is expected to increase as the new player (Cita, a Canary Island tobacco company) begins production.

During the last five years, the CAT had launched several new brands in the Dominican market with very poor results. The last effort, in conjunction with a Spanish company Cita almost two years ago, launched the “Palace” brand but the results have been disappointing.

INTABACO does not maintain official statistics on consumption. However, indicative consumption estimates are presented below reflecting the dip in cigarettes and a modest increase in consumption of black tobacco for cigar production:

Derived Consumption of Tobacco 1997-1999 (MT dry)

Type	CY 1997	CY 1998	CY 1999
Black: Andullos 1/	1,200	1,364	186
Black: On-Farm 1/	33	27	10
Cigars and Cigarettes	4,421	4,409	9,700 2/
Virginia 3/	2,140	2,250	N/A
Burley 3/	1,660	1,710	N/A
TOTAL	9,454	9,760	N/A

1/ These are factored into pre-harvest losses. For that reason, they are not included in the PS&D table.

2/ Included here are 5,000 MT of tobacco stocks were discarded from inventories.

3/ Contracted price by the private sector

Source: INTABACO and Industry.

Wholesale Cigarette Prices

Traditional cigarette manufacturing prices are presented for reference purposes:

Wholesale Cigarette Prices (Cartons-10 Packs, 20 Cigarettes Each) April 1998 - April 2000

Manufacturer/ Brand Name	Type	Prices RD\$/CT		
		April 1998	April 1999	April 2000
E. Leon Jimenez				
Marlboro	flue-cured/burley filter	116.33	116.33	116.33
Marlboro (light)	flue-cured/burley filter	116.33	116.33	116.33
Nacional	flue-cured/burley filter	85.61	102.74	102.74
Nacional (menthol)	flue-cured/burley filter	85.61	102.74	102.74
Compania Anonima Tabacalera				
Montecarlo	flue-cured/burley filter	99.72	99.72	99.72
Constanza (menthol)	flue-cured/burley filter	99.72	99.72	99.72
Hilton	flue-cured/burley filter	57.40	81.77	81.77
Winston	flue-cured/burley filter	-	-	-
Palace	flue-cured/burley filter	57.40	-	-
Casino	Dark filter	61.32	61.32	61.32
Creemas	Dark non-filter	61.32	61.32	61.32

Source: Industry

Trade

The Dominican Republic continues to be one of the most important trading partners to the United States in tobacco. In 1999, tobacco exports from the Dominican Republic to the United States decreased due to the hurricane Georges in 1998. Dominican exports were US\$33 million, making the DR the 5th leading supplier. The DR imports tobacco from the U.S. to its Free Trade Zones, classifies, further processes and re-exports a value added product. U.S. exports to the Dominican Republic reached approximately US\$136.5 million, making the Dominican Republic the 4th largest importer of U.S. tobacco.

The United States supplies the vast majority of DR tobacco imports. Imports of dark tobacco from the United States increased over eighteen percent during CY 1999 as a result of an increase demand for cigars. In spite of this, there is a continued demand for processing high quality tobacco and wrapper. Most of the imports are used as wrapper for classification, processing and cigar manufacture in the Free Trade Zones (FTZ) and re-exported to the United States as well as to other countries. In CY 1999, the Dominican Republic imported over 4,850 MT of dark tobacco wrappers from the United States. Detailed agricultural trade data for the last three years are included in the following table:

Tobacco Imports from the United States 1/

	CY 1997		CY 1998		CY 1999	
	Quantity (MT)	Value (US\$M)	Quantity (MY)	Value (US\$M)	Quantity (MT)	Value (US\$M)
Wrapper	2,040	90.39	1,648	89.66	2,304	110.98
Other Wrapper	1,655	19.26	1,732	26.59	1,437	24.21
Binder & Stems	222	1.64	234	0.34	1,108	1.10
TOTAL	3,917	111.29	3,614	116.59	4,849	136.29

1/ Mostly free-zone trade.

Source: U.S. Dept. of Commerce.

CEDOPEX (The Dominican Export Promotion Center) statistics indicate that over eighty percent of the national quantity exported moved to the United States, while only ten percent of the tobacco exported by the Free Trade Zone returned to the United States. A summary of the local trade data for the last three years follows:

**Dominican Tobacco / Cigar Exports
CY 1997 - CY 1999**

	CY 1997		CY 1998		CY 1999	
	Quantity (MT)	Value (US\$M)	Quantity (MT)	Value (US\$M)	Quantity (MY)	Value (US\$M)
Cigars 1/	285.00	173.0	192.4 2/	80.3	376.7	243.8
Tobacco (FTZ)	2,180	35.6	2,301	40.6	4,903	76.8
Tobacco (national)	16,447	36.5	10,682	41.4	14,435	40.4
TOTAL	18,617	245.1	12,983	162.3	19,338	361.0

1/ Million units. Approximately 70 percent is Free Trade Zone production.

2/ Independent report indicated this value did not include about 100 million machine manufactured.

Source: INTABACO & independent report.

According to INTABACO, in CY 1999 raw tobacco exports increased by about seven percent although average unit price decreased by more than 35%. With an average CY 2000 harvest to come, export volumes of raw, processed and manufactured tobacco are expected to return to the traditional levels and the high stocks of tobacco in storage should disappear.

The two cigarette manufacturing companies in the DR are E. Leon Jimenez, S.A.(ELJ) and Compania Anonima Tabacalera (CAT). The first is a private company associated with Phillip Morris, Inc. and is the leading cigarette manufacturing company, accounting for about 85 percent of total production. The CAT, owned partly by the GODR and now with a new Spanish partner (recapitalized and privatized), has become CITA Dominicana, produced the balance. Changes in the market place are expected to take place as the new company consolidates its position in the market.

Both companies import most of their inputs including filter tow, cigarette paper and packing materials from the United States. As part of the special arrangements with their U. S. partners, the brands they produce under license are manufactured exclusively for local consumption. Very small quantities of other cigarettes are exported. GODR sources indicate that about 4 MT of non-FTZ cigarettes (dark tobacco) were exported last year, the majority of which went to the EU.

Stocks

Industry contacts indicate that stocks of dark tobacco traditionally are quite high, mostly because of the aging process required to produce high quality cigars. During 1998 that was the case, as the supply exceeded the demand. These high levels of tobacco stocks resulting from the large CY 1998 crop were carried over into 1999.

At times the central government in an effort to support subsistence farmers through the Agricultural Credit Bank, will invest in stocks. These stocks are generally of very poor quality and not suitable for the export market and remain in warehouses for long periods. The GODR purchased excess stock during CY 1999 and again in 2000. Some of the stocks, because of poor quality and storage conditions, have been discarded

bringing stock levels down significantly.

Policy

The Secretariat of Agriculture, through INTABACO, sells certified seed to small tobacco farmers, germinated planting material for re-planting and some inputs. It also issues phytosanitary certificates for exports and keeps track of the sectors statistics. Inputs are no longer subsidized. According to the Agriculture Secretariat Operating Plan, about one percent of the Agricultural Credit Bank's budget (US\$50 million) was allocated to the tobacco sector.

Tariffs

The selective tax on locally produced cigarettes is set at twenty three percent. In addition, there is an 8 percent VAT, which brings the total tax to over thirty percent.

Tobacco and tobacco products imports are subject to the following basic tariff plus two additional duties:

Description	Tariff Rate
Basic Tariff:	
For raw tobacco	15 percent of C+F value
For semi-processed tobacco	20 percent of C+F value
For tobacco wastes	15 percent of C+F value
For cigars and cigarettes	30 percent of C+F value
For all other types	30 percent of C+F value
Other applicable taxes:	
Selective surcharge	30 percent of C+F value
Value Added Tax	8 percent of C+F value

Law 346 assesses a 5 percent ad valorem tax on all material used for re-export.

Under the World Trade Organization (WTO) agreement, the Dominican Republic bound its maximum tariff for most agricultural commodities at 40 percent.

Marketing

In CY 1999, the marketing channels for most of the dark air and sun cured tobacco are as follows: out of total production, producers or producer associations sold about 25% to brokers, 15% to independent packers, 25% to the exporters and 25% to the Cigar Factories in and outside Free Trade Zones. The brokers in turn sold about 10% to the cigar factories and the rest to the exporters. Exporters handled about 65% of the production. Some companies involved in the cigar manufacture contract producers and fix prices. The buyer finances the whole operation charging no interest for the advances made to the producer during the four-five month period.

In the case of flue-cured/burley tobacco, the marketing channels are different. There are only two cigarette producers. The manufacturers contract tobacco producers for desired quantities. The manufacturers generally finance the whole operation in order to guarantee the required product. As an alternative, and depending on local and international prices, the manufacturers source additional requirements from foreign markets.

Homogenized sheets are neither manufactured nor used in the Dominican cigarette or cigar manufacture.

The growth of the cigar manufacturing industry in the free zone areas and the specialized personnel available at acceptable costs have been important elements in the expansion of U.S. tobacco exports to the Dominican Republic. However, future market opportunities for U.S. exporters of dark tobacco will hinge on the success or failure of maintaining good quality tobacco production, processing and specialized labor at acceptable wage levels.

Statistical Tables

PSD Table						
Country	Dominican Republic					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	32150	32150	23400	13310	0	23600
Beginning Stocks	709	709	13709	13709	13790	8721
Farm Sales Weight Prod	40980	40980	29780	30058	0	30250
Dry Weight Production	34100	34100	24050	21647	0	24200
U.S. Leaf Imports	40	20	30	20	0	20
Other Foreign Imports	360	340	391	388	0	250
TOTAL Imports	400	360	421	408	0	270
TOTAL SUPPLY	35209	35169	38180	35764	13790	33191
Exports	13000	13000	16000	14435	0	16000
Dom. Leaf Consumption	8100	8100	7975	12200	0	7370
U.S. Leaf Dom. Consum.	40	20	30	20	0	20
Other Foreign Consump.	360	340	385	388	0	270
TOTAL Dom. Consumption	8500	8460	8390	12608	0	7660
TOTAL Disappearance	21500	21460	24390	27043	0	23660
Ending Stocks	13709	13709	13790	8721	0	9531
TOTAL DISTRIBUTION	35209	35169	38180	35764	0	33191

PSD Table						
Country	Dominican Republic					
Commodity	Unmfg., Dark Air & Sun Cured				(HA)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	23500	30600	0	12260	0	22500
Beginning Stocks	676	176	10676	13176	10676	8217
Farm Sales Weight Prod	36750	36750	0	26970	0	27000
Dry Weight Production	30500	30500	0	19176	0	21600
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	31176	30676	10676	32352	10676	29817
Exports	16000	13000	0	14435	0	16000
Dom. Leaf Consumption	4500	4500	0	9700	0	4750
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	0	0	0	0	0	0
TOTAL Dom. Consumption	4500	4500	0	9700	0	4750
TOTAL Disappearance	20500	17500	0	24135	0	20750
Ending Stocks	10676	13176	10676	8217	0	9067
TOTAL DISTRIBUTION	31176	30676	10676	32352	0	29817

PSD Table						
Country	Dominican Republic					
Commodity	Tobacco, Unmfg., Burley				(HA)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	850	850	0	500	0	500
Beginning Stocks	328	328	328	328	328	308
Farm Sales Weight Prod	2000	2030	0	1225	0	1225
Dry Weight Production	1700	1700	0	980	0	980
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	20	20	0	30	0	0
TOTAL Imports	20	20	0	30	0	0
TOTAL SUPPLY	2048	2048	328	1338	328	1288
Exports	0	0	0	0	0	0
Dom. Leaf Consumption	1700	1700	0	1000	0	1000
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	20	20	0	30	0	20
TOTAL Dom. Consumption	1720	1720	0	1030	0	1020
TOTAL Disappearance	1720	1720	0	1030	0	1020
Ending Stocks	328	328	328	308	0	268
TOTAL DISTRIBUTION	2048	2048	328	1338	0	1288

PSD Table						
Country	Dominican Republic					
Commodity	Tobacco, Unmfg., Flue Cured				(HA)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	700	700	0	550	0	600
Beginning Stocks	275	205	275	205	275	196
Farm Sales Weight Prod	2200	2200	0	1863	0	2025
Dry Weight Production	1900	1900	0	1491	0	1620
U.S. Leaf Imports	280	20	0	20	0	20
Other Foreign Imports	60	320	0	358	0	250
TOTAL Imports	340	340	0	378	0	270
TOTAL SUPPLY	2515	2445	275	2074	275	2086
Exports	0	0	0	0	0	0
Dom. Leaf Consumption	1900	1900	0	1500	0	1620
U.S. Leaf Dom. Consum.	280	20	0	20	0	20
Other Foreign Consump.	60	320	0	358	0	250
TOTAL Dom. Consumption	2240	2240	0	1878	0	1890
TOTAL Disappearance	2240	2240	0	1878	0	1890
Ending Stocks	275	205	275	196	275	196
TOTAL DISTRIBUTION	2515	2445	275	2074	275	2086

Export Trade Matrix			
Country	Dominican Republic		
Commodity	Tobacco, Unmfg., Total		
Time period		Units:	MT
Exports for:	CY 1999		1
U.S.	3122	U.S.	
Others		Others	
Spain	2076		
Algeria	938		
Canary Islands	1070		
Tunisia	304		
Morocco	203		
Germany	128		
Belgium	412		
Total for Others	5131		0
Others not Listed	6182		
Grand Total	14435		0

PSD Table						
Country	Dominican Republic					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Filter Production	3920	4061	0	3981	0	4000
Non-Filter Production	52	36	0	35	0	35
TOTAL Production	3972	4097	0	4016	0	4035
Imports	0	0	0	0	0	0
TOTAL SUPPLY	3972	4097	0	4016	0	4035
Exports	52	45	0	38	0	40
Domestic Consumption	3920	4052	0	3978	0	3995
TOTAL DISTRIBUTION	3972	4097	0	4016	0	4035